

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 		Printed Name		License Number

Three Rivers Health

Consolidated Financial Report December 31, 2006

Three Rivers Health

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Independent Auditor's Report

To the Board of Directors
Three Rivers Health

We have audited the accompanying consolidated balance sheet of Three Rivers Health (the "Hospital") as of December 31, 2006 and 2005 and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Three Rivers Health at December 31, 2006 and 2005 and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

March 19, 2007

Three Rivers Health

Consolidated Balance Sheet

	December 31, 2006	December 31, 2005
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 799,233	\$ 2,126,403
Accounts receivable (Note 3)	4,535,540	4,763,458
Estimated third-party payor settlements (Note 5)	1,612,000	-
Assets limited as to use (Note 2)	285,834	262,131
Other current assets	1,108,372	949,845
Total current assets	8,340,979	8,101,837
Assets Limited as to Use (Note 2)	2,450,818	2,581,437
Property and Equipment (Note 4)	17,129,029	17,478,715
Total assets	\$ 27,920,826	\$ 28,161,989
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 6)	\$ 1,425,261	\$ 1,307,045
Accounts payable	2,502,074	2,417,110
Estimated third-party payor settlements (Note 5)	-	532,000
Accrued liabilities and other:		
Accrued compensation	565,685	432,728
Accrued compensated absences	1,016,549	910,344
Construction payable	-	142,286
Other accrued liabilities	514,374	392,839
Total current liabilities	6,023,943	6,134,352
Long-term Debt (Note 6)	8,962,827	10,082,873
Total liabilities	14,986,770	16,217,225
Net Assets		
Invested in capital assets - Net of related debt	6,740,941	6,088,797
Restricted for:		
Debt service	285,834	262,131
Capital acquisitions	-	226,940
Unrestricted	5,907,281	5,366,896
Total net assets	12,934,056	11,944,764
Total liabilities and net assets	\$ 27,920,826	\$ 28,161,989

Three Rivers Health

Consolidated Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended	
	December 31, 2006	December 31, 2005
Operating Revenues		
Net patient service revenue	\$ 43,452,198	\$ 40,475,803
Other	903,204	1,257,920
Total operating revenues	44,355,402	41,733,723
Operating Expenses		
Salaries and wages	16,774,855	15,908,844
Employee benefits and payroll taxes	5,495,569	4,886,500
Operating supplies and expenses	4,791,385	4,365,815
Other	13,921,183	13,170,516
Depreciation and amortization	2,037,079	1,845,113
Total operating expenses	43,020,071	40,176,788
Operating Income	1,335,331	1,556,935
Nonoperating Revenue (Expense)		
Interest income	120,211	67,708
Contributions	56,466	77,621
Interest expense	(522,716)	(455,940)
Total nonoperating expense	(346,039)	(310,611)
Increase in Net Assets	989,292	1,246,324
Net Assets - Beginning of year	11,944,764	10,698,440
Net Assets - End of year	\$ 12,934,056	\$ 11,944,764

Three Rivers Health

Consolidated Statement of Cash Flows

	Year Ended	
	December 31, 2006	December 31, 2005
Cash Flows from Operating and Nonoperating Activities		
Cash received from patients and third-party payors	\$ 41,536,116	\$ 39,323,010
Cash payments to employees and suppliers	(40,838,144)	(36,516,258)
Other receipts from operations	903,204	1,257,920
Net cash provided by operating activities	1,601,176	4,064,672
Cash Flows from Noncapital Financing Activities -		
Donations	56,466	77,621
Cash Flows from Investing Activities		
Investment income	120,211	67,708
Cash invested in assets limited as to use	(195,145)	(489,547)
Net cash used in investing activities	(74,934)	(421,839)
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,350,680)	(4,871,644)
Proceeds from sale of capital assets	-	1,450
Interest paid on long-term debt	(522,716)	(455,940)
Principal payments on long-term debt	(1,338,543)	(1,216,977)
Net cash used in capital and related financing activities	(3,211,939)	(6,543,111)
Net Decrease in Cash and Cash Equivalents	(1,629,231)	(2,822,657)
Cash and Cash Equivalents - Beginning of year	2,807,281	5,629,938
Cash and Cash Equivalents - End of year	\$ 1,178,050	\$ 2,807,281
Balance Sheet Classification for Cash		
Current assets	\$ 799,233	\$ 2,126,403
Assets limited as to use	378,817	680,878
Total cash	\$ 1,178,050	\$ 2,807,281

Three Rivers Health

Consolidated Statement of Cash Flows (Continued)

A reconciliation of operating income to net cash from operating activities is as follows:

	Year Ended	
	December 31, 2006	December 31, 2005
Cash Flows from Operating Activities		
Operating income	\$ 1,335,331	\$ 1,556,935
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	2,037,079	1,845,113
Provision for bad debts	4,093,914	3,672,359
Loss on disposal of capital assets	-	8,909
Changes in assets and liabilities:		
Increase in patient accounts receivable	(3,865,996)	(4,825,152)
Increase in third-party settlement receivables	(1,612,000)	-
(Increase) decrease in other current assets	(158,527)	78,776
Increase in accounts payable	84,964	922,144
Increase in other accrued expenses	218,411	323,031
(Decrease) increase in third-party settlement payables	(532,000)	482,557
Net cash provided by operating activities	<u>\$ 1,601,176</u>	<u>\$ 4,064,672</u>

Significant noncash investing, capital, and financing activities for 2006 and 2005 are as follows:

In 2006 and 2005, the Hospital entered into capital lease agreements in the amount of \$336,713 and \$277,358, respectively.

In 2005, the Hospital had \$142,286 due on a construction payable for assets included in property and equipment.

Three Rivers Health

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note I - Nature of Business and Significant Accounting Policies

Three Rivers Health (the "Hospital") is a governmental unit that operates a short-term acute care facility providing inpatient, rehabilitation, and outpatient health care services to the Three Rivers, Michigan area. The accompanying consolidated financial statements include accounts of both the Hospital and several blended component units. All intercompany balances have been appropriately eliminated from the consolidated financial statements. These financial statements consolidate the activities of the Hospital and the following component units:

- TRAH Properties - Leases space to the Hospital for services provided to its patients
- Integrated Health Systems - Employs physicians who work at the Hospital as contracted employees
- Physicians Health Organization - Joint venture between the Hospital and local physicians to provide computer services, as well as a 50-50 risk share pool to doctors who refer patients to the Hospital
- Three Rivers Health Foundation - Obtain funds to directly benefit the Hospital

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provide a comprehensive look at the Hospital's financial activities.

Enterprise Fund Accounting - The Hospital uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Three Rivers Health

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note I - Nature of Business and Significant Accounting Policies (Continued)

Affiliated Organization - The Hospital has a formal agreement with a local health care provider whereby both organizations will work toward the mutual benefit of one another in furtherance of promoting an integrated health care delivery system in southwest Michigan. The Hospital has available the technical and financial resources of its affiliate and participates in the affiliate's sponsored managed care programs. This affiliation agreement terminates October 31, 2008.

Cash and Cash Equivalents - Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use.

Assets Limited as to Use - Assets limited as to use include assets set aside by the board of trustees for future capital improvements over which the board retains control and may at its discretion subsequently use for other purposes and assets temporarily restricted under terms of a bond agreement for future bond payments and capital projects.

Investments - Investments are carried at fair value.

Property and Equipment - Property and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred. Depreciation has been charged to operations using the straight-line method and includes amortization of capital leases.

Paid Time Off - The Hospital maintains a paid time off benefit policy. The benefits are charged to operations when earned. Unused benefits are recorded as a current liability in the consolidated financial statements.

Classification of Net Assets - Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of the other two categories of net assets. Included in the unrestricted net assets reported at December 31, 2006 and 2005 is \$2,450,818 and \$2,354,497, respectively, which has been designated by the Hospital's board of trustees for future capital acquisitions. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes.

Three Rivers Health

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note I - Nature of Business and Significant Accounting Policies (Continued)

Net Patient Service Revenue - The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Operating Revenue and Expenses - The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonoperating activities, including investment income and contributions received for purposes other than capital asset acquisition, and interest expense, are reported as nonoperating revenue and expense.

Tax Status - The Hospital, TRAH Properties, and Three Rivers Health Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. IHS is deemed a corporation and files an 1120, with no tax due, and PHO files a 1065 partnership return.

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Three Rivers Health

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Hospital has adopted an investment policy that follows Public Act 20 of 1943, as amended.

The Hospital's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. At December 31, 2006 and 2005, the Hospital had deposits of \$1,837,754 and \$3,283,602, respectively, of bank deposits (checking, savings, and money market accounts), of which \$381,695 and \$400,000, respectively, was covered by FDIC insurance. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Concentration of Credit Risk - The Hospital places no limit on the amount the Hospital may invest in any one type of investment.

Assets Limited as to Use - The detail of assets limited as to use, consisting of cash and investments in government-backed securities, is summarized in the following schedule:

	2006	2005
Restricted under the terms of the bond agreement for debt service	\$ 285,834	\$ 262,131
Restricted under the terms of the bond agreement for capital expansion project	-	226,940
Designated by board for future capital acquisitions	2,450,818	2,354,497
Total assets limited as to use	2,736,652	2,843,568
Less current portion	285,834	262,131
Total long-term assets limited as to use	\$ 2,450,818	\$ 2,581,437

Three Rivers Health

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2006	2005
Patient accounts receivable	\$ 12,827,540	\$ 10,715,458
Less:		
Allowance for uncollectible accounts	(1,924,000)	(1,589,000)
Allowance for contractual adjustments	(6,368,000)	(4,363,000)
Net patient accounts receivable	<u>\$ 4,535,540</u>	<u>\$ 4,763,458</u>
	Percentage	
Medicare	28	28
Blue Cross/Blue Shield of Michigan	16	15
Medicaid	17	15
Other insurance	23	25
Self-pay	16	17
Total	<u>100</u>	<u>100</u>

Note 4 - Capital Assets

Cost of capital assets and related depreciable lives for December 31, 2006 are summarized below:

	2005	Additions	Transfers	Retirements	2006	Depreciable Life - Years
Land	\$ 219,500	\$ -	\$ -	\$ -	\$ 219,500	
Land and land improvements	1,015,262	18,983	-	-	1,034,245	5-25
Buildings and improvements	13,629,263	143,695	5,410,779	-	19,183,737	10-40
Furniture, fixtures, and equipment	18,526,562	434,053	-	-	18,960,615	3-20
Buildings and equipment under capital lease	3,656,621	336,713	-	-	3,993,334	3-40
Construction in progress	4,656,830	753,949	(5,410,779)	-	-	
Total	41,704,038	1,687,393	-	-	43,391,431	
Less accumulated depreciation:						
Land and land improvements	745,208	55,809	-	-	801,017	
Buildings and improvements	6,839,611	875,750	-	-	7,715,361	
Furniture, fixtures, and equipment	15,883,891	827,085	-	-	16,710,976	
Buildings and equipment under capital lease	756,613	278,435	-	-	1,035,048	
Total	24,225,323	2,037,079	-	-	26,262,402	
Net carrying amount	<u>\$ 17,478,715</u>	<u>\$ (349,686)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,129,029</u>	

Three Rivers Health

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 4 - Capital Assets (Continued)

Cost of capital assets and related depreciable lives for December 31, 2005 are summarized below:

	2004	Additions	Transfers	Retirements	2005	Depreciable Life - Years
Land	\$ 219,500	\$ -	\$ -	\$ -	\$ 219,500	
Land and land improvements	1,023,833	1,788	-	(10,359)	1,015,262	5-25
Buildings and improvements	13,018,644	610,619	-	-	13,629,263	10-40
Furniture, fixtures, and equipment	17,467,209	937,803	121,550	-	18,526,562	3-20
Buildings and equipment under capital lease	3,499,107	279,064	(121,550)	-	3,656,621	3-40
Construction in progress	1,194,816	3,462,014	-	-	4,656,830	
Total	36,423,109	5,291,288	-	(10,359)	41,704,038	
Less accumulated depreciation:						
Land and land improvements	706,790	38,418	-	-	745,208	
Buildings and improvements	6,134,931	704,680	-	-	6,839,611	
Furniture, fixtures, and equipment	14,835,839	1,048,052	-	-	15,883,891	
Buildings and equipment under capital lease	702,650	53,963	-	-	756,613	
Total	22,380,210	1,845,113	-	-	24,225,323	
Net carrying amount	\$ 14,042,899	\$ 3,446,175	\$ -	\$ (10,359)	\$ 17,478,715	

Note 5 - Cost Report Settlements

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Approximately 68 percent of the Hospital's net patient service revenue is received from the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs. Subsidiaries of the Hospital have agreements with third-party payors that provide for reimbursement at amounts different from established rates. A summary of the basis of reimbursement with these third-party payors is as follows:

- **Medicare** - Inpatient, acute-care, and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Inpatient rehabilitation services are reimbursed at cost subject to a per case limit. Outpatient services related to Medicare beneficiaries are paid at fee-for-service rates.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost-reimbursement method. Outpatient services are paid at fee-for-service rates.

Three Rivers Health

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 5 - Cost Report Settlements (Continued)

- **Blue Cross/Blue Shield of Michigan** - The Hospital is paid controlled charges for services provided to Blue Cross/Blue Shield subscribers.

Laws and regulations governing the Medicare, Medicaid, and Blue Cross/Blue Shield programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

Note 6 - Long-term Debt

Long-term liability activity for the year ended December 31, 2006 was as follows:

	2005	Current Year Additions	Current Year Reductions	2006	Amounts Due Within One Year
Series 1993	\$ 2,675,000	\$ -	\$ (625,000)	\$ 2,050,000	\$ 655,000
Series 1997	2,071,000	-	(260,000)	1,811,000	280,000
Series 2004	3,933,034	-	(153,897)	3,779,137	158,797
Lease payable to affiliate	2,296,504	-	(112,810)	2,183,694	119,649
Leases payable	414,380	336,713	(186,836)	564,257	211,815
Total long-term debt	<u>\$ 11,389,918</u>	<u>\$ 336,713</u>	<u>\$ (1,338,543)</u>	<u>\$ 10,388,088</u>	<u>\$ 1,425,261</u>

Long-term liability activity for the year ended December 31, 2005 was as follows:

	2004	Current Year Additions	Current Year Reductions	2005	Amounts Due Within One Year
Series 1993	\$ 3,220,000	\$ -	\$ (545,000)	\$ 2,675,000	\$ 625,000
Series 1997	2,321,000	-	(250,000)	2,071,000	260,000
Series 2004	4,100,000	-	(166,966)	3,933,034	153,897
Lease payable to affiliate	2,402,867	-	(106,363)	2,296,504	112,810
Leases payable	285,670	277,358	(148,648)	414,380	155,338
Total long-term debt	<u>\$ 12,329,537</u>	<u>\$ 277,358</u>	<u>\$ (1,216,977)</u>	<u>\$ 11,389,918</u>	<u>\$ 1,307,045</u>

Three Rivers Health

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 6 - Long-term Debt (Continued)

The bonds payable are summarized as follows:

- Bonds payable - 1993 Series, total annual principal payments ranging from \$655,000 due in 2007 to \$715,000 due in 2009, collateralized by net revenue derived from the operations of the Hospital. The interest rate is 5.44 percent.
- Bonds payable - 1997 Series, total annual principal payments ranging from \$280,000 due in 2007 to \$370,000 due in 2011, with the last payment of \$151,000 scheduled to be made in May 2012, collateralized by net revenue derived from the operations of the Hospital. The interest rate is 5.59 percent.
- Bonds payable - 2004 Series, total annual principal payments ranging from \$158,797 due in 2007 to \$270,485 due in 2024. The debt is collateralized by the net revenue derived from the operations of the Hospital. The interest rate is 5.33 percent.
- Lease payable to an affiliate organization, monthly installments aggregating approximately \$20,500, including interest at 6.0 percent per annum, collateralized by two buildings.
- Leases payable, monthly installments aggregating approximately \$20,000, including interest at 5.08 percent - 5.73 percent per annum, collateralized by equipment.

The following is a schedule by years of bond principal and interest as of December 31, 2006:

Year Ending December 31	Long-term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2007	\$ 1,093,797	\$ 316,863	\$ 331,464	\$ 151,129
2008	1,143,534	259,734	268,446	134,433
2009	1,214,059	199,756	234,686	119,683
2010	524,442	146,271	215,296	107,087
2011	549,996	120,872	189,206	94,626
2012-2016	1,170,199	398,368	905,140	320,653
2017-2021	1,157,392	227,183	603,713	50,252
2022-2024	786,718	44,028	-	-
Total payments	<u>\$ 7,640,137</u>	<u>\$ 1,713,075</u>	<u>\$ 2,747,951</u>	<u>\$ 977,863</u>

Note 7 - Defined Contribution Pension Plan

The Hospital maintains a defined contribution retirement plan covering substantially all employees. The Hospital has recognized contribution expense totaling \$614,454 and \$462,223 during the years ended December 31, 2006 and 2005, respectively. Expense was determined in accordance with the plan formula as follows:

Three Rivers Health

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 7 - Defined Contribution Pension Plan (Continued)

The Hospital will make fixed contributions of employees' W-2 wages for those employees who have completed their probationary period and are employed on either a full-time or part-time basis during the final pay period of each calendar year. The fixed contributions will be paid during the first quarter of each succeeding year. The fixed contribution rates are set forth as follows:

- Employees who have completed their probationary period up to 10 years of services - 2 percent employer contribution
- Employees who have completed 11 to 14 years of service - 3 percent employer contribution
- Employees who have completed 15 years of service and up - 4 percent employer contribution

In addition, the Hospital will make matching contributions equal to 50 percent of an employee's contributions, up to a maximum of 2 percent of the employee's compensation.

Note 8 - Risk Management

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Hospital has purchased commercial insurance for property loss, fraud, director and officer liability, professional liability, malpractice, general liability, employee medical, and workers' compensation claims.

The Hospital is insured against medical malpractice claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claim or aggregate claims exceeding claim limits asserted in the policy year. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

There are several pending malpractice claims against the Hospital. There is insurance coverage, but it is possible that the liability for the claims may exceed the aggregate insurance coverage. Presently, it is not possible to determine the resolution of the claims or amount of liability, if any. Accruals for estimated deductibles are included in current liabilities at December 31, 2006 and 2005.

Three Rivers Health

Notes to Consolidated Financial Statements December 31, 2006 and 2005

Note 9 - Charity Care

The Hospital maintains records to identify and monitor the level of charity care provided. These records include the amount of charges forgone for services and supplies rendered under its charity care policy. The following information measures the level of charity care provided:

	<u>2006</u>	<u>2005</u>
Charges forgone, based on established rates	<u>\$ 330,313</u>	<u>\$ 322,043</u>

In addition, under arrangements with various governmental insurance programs, the Hospital and subsidiaries provide significant care to the local indigent population for which reimbursement for services rendered is generally less than the cost of providing such services. As part of their obligation to the local communities, the Hospital and subsidiaries also provide numerous other services that benefit the communities and are generally performed at no charge.



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March 19, 2007

To the Board of Directors
Three Rivers Health
Three Rivers, MI

Dear Board Members:

In planning and performing our audit of the consolidated financial statements of Three Rivers Health (the "Hospital") as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Accrued Accounts Payable - During our audit procedures related to accrued accounts payable, it was determined that the account had not been reconciled at year end. We recommend a reconciliation be prepared monthly to ensure the balance is fairly stated.

Accrued Payroll Taxes - During our audit procedures related to accrued payroll taxes, it was noted that FICA taxes totaling approximately \$55,000 were not accrued at year end. We recommend implementing a monthly closing procedure that would specifically require someone to evaluate the need to accrue payroll taxes. This will help to ensure that accrued payroll taxes are accurately stated.

To the Board of Directors
Three Rivers Health

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March 19, 2007

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "Patrick A. Horan". The signature is written in a cursive style with a large initial "P" and a long, sweeping underline.

Patrick A. Horan, CPA
Partner